BRITISH COLUMBIA

BC STATS

Service BC
Ministry of Management Services

Infoline

Contact: bcstats.infoline@gov.bc.ca *Issue: 05-20* *May 20, 2005*

- **BC's inflation rate dipped slightly to 2.0% in April, the lowest of any province**
- **In March, retail sales climbed 0.8% and wholesale sales jumped 3.5%**
- **Visitor entries fell 1.7% in March**

Prices

- **British Columbia's year-over-year inflation rate stood at 2.0% in April, a slight drop from the 2.1% figure recorded in March.** The increasing cost of energy products (+8.6%) continues to put inflationary pressure on the economy, contributing a full half of a percentage point to the overall Consumer Price Index (CPI). Excluding energy, the inflation rate was 1.5%. Transportation costs have risen 4.8% in the last year, largely due to soaring prices for gasoline (+15.2%). Consumers are paying a third more for fuel oil (+33.3%) and natural gas is 4.3% more expensive; however, a 1.6% decline in the price of electricity has helped moderate the inflation in the cost of shelter (+1.7%).

  The cost of services in BC has climbed faster than that of goods over the last year. Services experienced an inflation rate of 2.5% compared to only 1.5% for goods. Tuition increases last fall that have education costs running almost 10% higher than a year ago are one of the main contributors to the higher cost of services. Also, health care is 2.6% more costly in BC compared to a year ago. On the goods side, the price of food climbed only 1.7% and the cost of household furnishings (+0.3%) and clothing (+0.4%) edged up only slightly. *Data Source: Statistics Canada*

- **British Columbia recorded the lowest inflation rate of all the provinces in April.** Nationally, energy (+10.7%), alcohol and tobacco (+3.0%) and food (+4.0%) contributed to a 2.4% rise in the overall price level. Other than BC, only Alberta (+2.3%) and Ontario (+2.3%) posted lower rates than the Canadian average, although the capital city of each of the three territories were all below the national rate. Whitehorse saw inflation of 2.2%, while Yellowknife (+1.8%) and Iqaluit (+1.3%) recorded rates even lower than that for BC. Vancouver's inflation rate was the same as the province average (+2.0%) in April, while prices increased 2.4% in Victoria. *Data Source: Statistics Canada*

The Economy

- **Sales by retailers in the province climbed 0.8% (*seasonally adjusted*) to $4.1 billion in March, well above the national average of 0.2%.** The only other provinces to experience a significant increase in sales were Alberta (0.6%), Saskatchewan (+0.5%) and Quebec (+0.5%). Sales in New Brunswick (+0.1%) and Ontario (0.0%) were essentially flat. Yukon retailers experienced a 3.3% boost in sales.

  Nationally, retail sales were undermined by a poor performance among new and used automobile and parts dealers. Excluding these retailers, Canadian retail sales rose 0.9% in March. *Data Source: Statistics Canada*

- **Wholesale sales increased 3.5% (*seasonally adjusted*) to almost $4 billion in March, posting the second consecutive monthly gain.** Lumber & millwork and machinery & equipment were the main sources of sales growth. Wholesale trade of motor vehicles, as well as motor vehicle parts & accessories, dropped substantially.

  Nationally, wholesale sales inched up 0.5% to $39.1 billion in March, led by strong growth in BC (+3.5%) and Alberta (+2.8%). All other provinces except Ontario (+0.2%) and Quebec (+0.8%) saw declines in wholesale sales. *Data Source: Statistics Canada*

Tourism

- **Visitor entries to Canada via British Columbia fell in March (-1.7%, *seasonally adjusted*) due mainly to a decline in entries from the US**

Report US Protectionism: Backfiring on all cylinders

Did you know...
If the one-vote victory by the NDP's Charlie Wyse in the Cariboo South riding holds up after recount, it won't be a BC first. In 1979, "Landslide" Al Passarell of the NDP defeated the Social Credit candidate, Frank Calder, by one vote in the Atlin riding.

(-2.1%). Overnight visits from the US were down 2.5%, while same-day visits dropped 1.3%. Overseas entries were virtually unchanged as continued interest from European (+4.1%) and Asian visitors (+2.4%) was offset by the decline in the number of travellers from Australia, New Zealand and the South Pacific (-6.9%).

Canadian travel abroad increased (+4.3%) as more Canadians made same-day car trips to the US (+5.1%) as well as overseas (+1.5%).

Data Source: Statistics Canada & BC Stats

- **Canadian traveller accommodation industries are relatively optimistic about the near future, with about 30% feeling that room nights booked and occupancy rates will be higher in the second quarter of 2005 and only 20% of them expecting to see lower rates.** The balance of opinion (difference between the percentage expecting an increase and the percentage forecasting a decline) on average daily room rates is strongly positive (+24%).

  The top business impediments identified by traveller accommodation industries are general economic conditions (32%) and excess room supply (25%). Labour shortages are also a concern with 21% expressing concern about a shortage of skilled labour and 19% suggesting that availability of unskilled labour poses a problem. *Data Source: Statistics Canada*

Trade in Culture Goods

- **In 2004, Canada's trade deficit in culture goods (books, CDs, films, paintings, etc.) widened for the fourth consecutive year.** Shrinking exports of cultural goods (-8.4% to $2.3 billion) accounted for most of the expanded deficit, as exports of books, newspapers and other printed materials to the US experienced a substantial decline. Imports climbed marginally (+0.9%) to $4.6 billion in 2004.

  The United States continued to be the dominant marketplace, accounting for 92% of Canada's culture goods exports, although exports to the US fell 9.8% from 2003. Culture imports from the US dropped (to $3.5 billion) for the first time in the last seven years.

Source: Statistics Canada

Family Income

- **Of BC's three census metropolitan areas (CMAs), only Victoria recorded a median total family income greater than the Canadian average in 2003.** Victoria's $61,700 median income for all families exceeded the national figure of $56,000, but incomes in Vancouver ($54,100) and Abbotsford ($51,000) fell short. In fact, these two CMAs had the lowest income of any CMA west of Quebec. In all three CMAs in BC, the median total family income fell compared to 2002. Vancouver (-1.6%) saw the largest drop, followed by Abbotsford (-1.5%) and Victoria (-0.6%).

  Falling incomes were common across the country as the national median total family income dropped 0.9% and all but five of Canada's 27 CMAs experienced declining incomes. The CMA with the highest median total family income in the country was Oshawa, Ontario at $72,400, while the lowest was measured in Trois-Rivières, Quebec ($50,500).

Source: Statistics Canada

The Nation

- **Canadian direct investment abroad rebounded by more than 10% in 2004, after slumping 7% the year before.** At the same time, foreign direct investment into Canada was up 3% in 2004. As a result, Canadians hold $445.1 billion in direct investment assets abroad, about $79.4 billion more than foreign investors hold in Canada. *Data source: Statistics Canada*

- **Foreign investment in Canadian securities totalled $1.9 billion in March, slightly more than in February ($1.5 billion).** The rise in foreign investment was due to extra holdings of Canadian stock by foreign investors.

  At the same time, Canadian investors acquired $3.6 billion of foreign securities in March, with most of the investment in foreign bonds ($2.8 billion). *Data Source: Statistics Canada*

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For data originating from Statistics Canada, data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database; otherwise the source is identified as 'SC' plus the catalogue number.

Infoline Report

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American Protectionism: Backfiring on All Cylinders

After facing a flurry of protectionist actions over the last few years, Canadian exporters can be excused for questioning the American commitment to free trade. Tiffs over softwood lumber, cattle and wheat have strained the relationship between Canada and the United States and have caused serious difficulties for Canadian producers of those products. However, Canadian companies are not the only ones feeling the effects of protectionist actions by the United States—Americans themselves are also suffering.

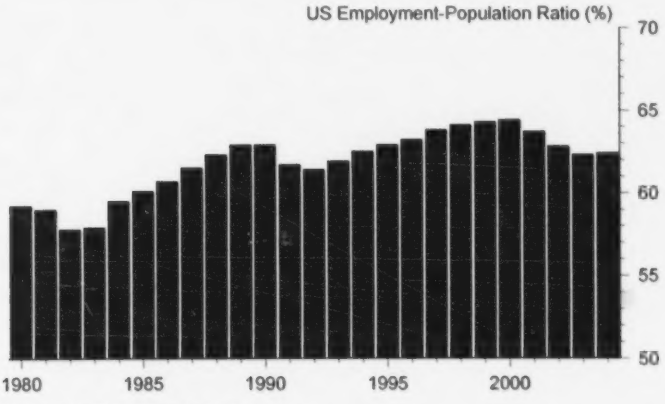
The United States' move toward protectionism is bad news for Canadians, but may also be backfiring on Americans

Job movement fuels protectionist fervour

The migration of manufacturing jobs overseas and, more recently, high tech service jobs, has fuelled the resistance in the US to free trade. In the recent presidential election, offshoring became a major issue as Americans worried about losing high-paid service jobs to locales such as India. It has also been raised repeatedly in the media, particularly by CNN commentator Lou Dobbs, who seems to be on a personal crusade against outsourcing and the companies that engage in the practise. In an effort to stem the flow of manufacturing jobs out of the country, several protectionist measures have been implemented, not only against the Canadian industries already mentioned, but also against steel producers in Europe and Japan, and Chinese clothing producers, for example.

The migration of selected jobs out of the country has been driving much of the protectionist sentiment

Free trade has not resulted in massive job loss in the United States as some protectionists claim



Source: US Department of Labor

Free trade is not the job killer that many protectionists in the US claim

The question is, are these concerns valid and is protectionism a legitimate response? A quick look at current employment levels in the United States suggests that free trade has not resulted in the massive exit of jobs that anti-free trade crusaders claim is the case. Although there has been a decline in the employment to population ratio in the last few years, it is not much different than it was in the late eighties and early nineties.

As for whether or not protectionism is an appropriate reaction, economists tend to agree that it is bad economic policy and often has unintended consequences. It is true that free trade will often displace some workers such that individuals may be worse off, but the number of jobs created will almost always exceed those lost. Any kind of progress usually goes hand in hand with job displacement, but the longer it is put off, the more difficult the transition will be for those involved. Free trade works on the principle of comparative advantage, allowing countries to specialize in areas where they have an advantage due to things such as natural resource availability or an abundant supply of labour. Goods are therefore produced more efficiently at a lower cost. This reduces the cost of inputs for other industries and makes consumer goods less expensive, which in turn leaves more income remaining to spend on other things. This then creates more jobs as demand for those goods increases. Protectionist policies such as subsidies and tariffs subvert the positive effects of free trade by propping up inefficient industries and driving up prices. It may help small groups of producers, but it almost always results in higher prices for consumers and often has negative effects on other industries. This has been particularly evident with regard to many of the protectionist policies adopted by the United States in recent years.[1]

Protectionism is bad economic policy that often backfires

Lumber has been a splinter in Canada-US trade relations

The softwood lumber dispute between Canada and the United States has dragged on for almost four years now and despite Canadian victories in several NAFTA and WTO decisions, there are no signs that the US government is prepared to back down. After a NAFTA panel found that Canadian lumber imports into the US did not injure the American industry, the US Department of Commerce launched an extraordinary challenge of the decision. This is an avenue of appeal that is rarely used and has never been successful. Since US and international trade law dictates that injury is a condition that must be met in order for duties to be imposed, a finding in favour of Canada should mean an end to the

Despite NAFTA and WTO decisions in Canada's favour, the US is refusing to back down on softwood lumber duties

[1] In the interest of balance, it should be noted that the US is not alone in pursuing protectionist measures. The European Union is often held up as an example of rampant protectionism, particularly with respect to agricultural goods. Canada is not squeaky clean in this respect either, as its dairy and wheat marketing boards have been the target of subsidy complaints. The Canadian Wheat Board has been exonerated of this charge by both WTO and NAFTA panels, but Canada was forced to stop exports of subsidized dairy products to the United States after losing a WTO appeal.

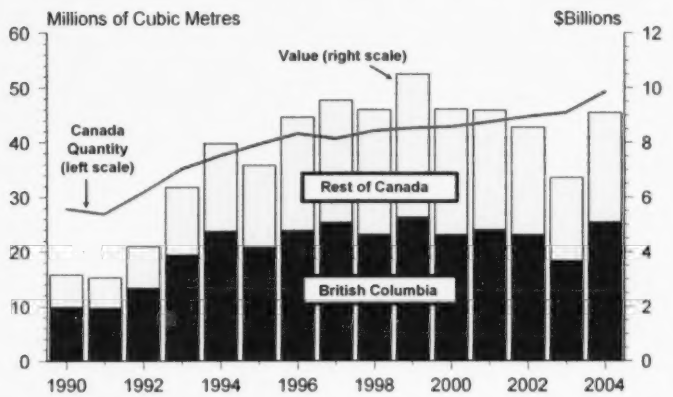
dispute, but based on the talk coming from the American side, this could be wishful thinking. Already there have been suggestions from the American government that a loss in the NAFTA decision will not necessarily result in a return of the monies paid by Canadian lumber producers. With approximately $US 4 billion at stake, this has angered the Canadian side in the dispute and has made the likelihood of any kind of settlement even more remote.

Canada has floated a possible resolution to the dispute that would involve the imposition of some kind of export tax on Canadian lumber and would return all the duties paid to date. Although all the provincial governments appear to be onside with this proposal, there is strong opposition from some of the lumber manufacturers, particularly in Eastern Canada, where some producers are suggesting that Canada seems to be giving up on the fight just as victory is in sight.

Despite the discussion around a possible settlement, Canada has continued its fight in the courts and has also threatened possible retaliatory actions, going so far as to draw up a list of goods that could be subject to tariffs and applying to the WTO for authority to retaliate against the approximately $US 4 billion in lumber tariffs.[2]

Canada has asked the WTO for authority to impose retaliatory duties

Duties have not kept Canadian imports of softwood lumber out of the United States



Source: Statistics Canada

Softwood lumber shipments to the United States have climbed, despite steep duties

[2] Canada has already announced sanctions on imports of cigarettes, oysters and live swine from the United States in retaliation for the American government's failure to rescind the Byrd Amendment, which authorizes the distribution of monies collected from duties to affected industries in the US. The WTO found the amendment illegal back in 2002 and gave the US until the end of 2003 to strike down the legislation, but despite the urging of President Bush, the US Congress has refused to act. The European Union has also imposed duties on selected American goods to punish the US for failing to get rid of the Byrd Amendment.

The dispute has cost the Canadian industry both financially and in terms of employment, but it has not had the desired outcome for American lumber producers. Not only have lumber shipments to the US not been reduced, but they have actually increased. Part of the reason for this is that larger Canadian companies have ramped up production to achieve economies of scale, which has put far more lumber on the market. This helped reduce prices for a time, but low mortgage rates and hurricane damage in the American southeast has increased housing starts and pushed up demand for lumber, which has boosted prices as well. The current situation is far more to the lumber industry's liking, but in the meantime, a large number of small, independent producers were forced out of business and it wasn't just Canadian mills that were going under. In fact, more small mills were closed in the US than in Canada. In addition to the harm that the dispute has inflicted on small American lumber producers, it is also increasing the costs of industries that use lumber as an input, such as the construction industry. Furthermore, it is harming American consumers by raising the price of these goods, particularly houses. With this in mind it can probably be effectively argued that the costs to Americans of the softwood lumber dispute have far outweighed any benefits.

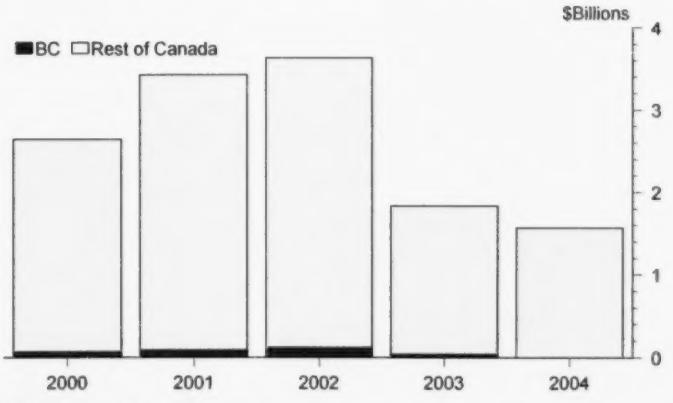
The lumber dispute has probably caused more harm than benefit to the United States

The beef over Canadian cattle continues

The US border has been closed to Canadian cattle and most cuts of beef for almost two years now since a cow infected with bovine spongiform encephalopathy (BSE) was discovered in Alberta. The US Department of Agriculture was set to reopen the border early in March, but at the request of a group of American ranchers, a Montana judge granted an injunction to prevent this from occurring. The US cattle producers cited the recent discovery of two more infected cows and suggested that al-

A Montana judge has prevented the US government from re-opening the border to Canadian live cattle

There has been a significant drop in shipments of beef and live cattle to the US due to border restrictions



Source: Statistics Canada

Live cattle exports from Canada have halted and beef exports are also well down as a result of border restrictions stemming from the discovery of a BSE-infected cow in Alberta in 2003

lowing imports of Canadian cattle would endanger the US industry as well as American consumers. The US Department of Agriculture refutes this claim and is standing by its decision to open the border, stating that safeguards in place in Canada are more than sufficient to meet the requirements of minimum-risk.

The Canadian cattle industry is moving to find its own solution to the issue, by both increasing processing capacity in Canada and at the same time, launching a lawsuit to recover lost revenue resulting from unfair trade restrictions.

The attempt by the American cattle industry to prevent Canadian beef and cattle from crossing the border is being seen as a purely protectionist measure designed to keep both prices and profits high. So far the strategy has worked quite well to the benefit of American cattle ranchers, but to the detriment not only of American consumers, but also those in the meatpacking industry. The National Meat Association, which represents the meat processing industry in the US, has filed an emergency appeal of the Montana judgement. Their argument is that the restrictions on Canadian beef are putting many meatpackers out of business, not only due to high beef prices, but also because of a shortage of cattle to process. Many US processing plants previously augmented domestic supplies of cattle with imports from Canada. With the Canadian supply cut off, these plants are in danger of shutting down. On top of that, with the Canadian industry investing in its own processing plants, they may soon be facing increased competition from Canada.

The refusal to allow Canadian cattle into the US has hurt American meatpackers and increased beef prices for American consumers

Protectionism leaving sour taste with some American producers

There are other goods from Canada that are subject to US duties, most notably wheat, but Canada is not the only target of US protectionism. For example, imports of cement from Mexico have been subject to anti-dumping duties for well over a decade, despite the fact that demand for the product in the US is larger than supply and the US industry is operating at full capacity. This has artificially raised the price of cement for both American industries using the product and American consumers.

Other examples where protectionism has backfired on the United States are sugar subsidies and steel tariffs. The US sugar industry has been protected for many years with significant subsidies as well as protective tariffs. As a result, the cost of sugar in the United States is well in excess of prices in other countries. Consequently, many manufacturers of hard candy, for which sugar is the main ingredient, have moved their operations to other countries, such as Mexico.

US subsidies and tariffs have driven some industries out of the country in search of lower cost inputs

In the case of steel, the short-lived tariffs imposed on the product in 2003 were removed when the European Union threatened $2.2 billion in retaliatory duties, but not before thousands of American jobs were lost in industries that use steel as an input - far more than were saved in the steel-producing sector.

Protection for some, harm for many more

Until the American government wises up to the deleterious effects of protectionism, or powerful lobby groups such as the lumber coalition are countered with a stronger voice from consumer groups and other affected industries, it is possible that the types of trade disputes currently plaguing Canadian lumber producers, cattle ranchers and wheat farmers will continue to be a thorn in the side of Canada-US relations. These protectionist actions will benefit small groups of American producers; however, it will be at a significant cost not only to foreign competitors, but also other American industries and particularly the American consumer. Even for those industries that benefit in the short-term, the complacency offered by government subsidies could cause them serious long-term harm as foreign competitors continue to strive for efficiency gains and achieve a further competitive edge.

In the meantime, Canadian companies will have to continue to find ways to work around the challenges offered by the protectionist sentiment coming out of the United States, either by looking for new markets, making efficiency improvements or finding other ways to lessen their dependence on the United States, such as building more processing capacity in Canada, for example.

In a recent development that offers hope that the United States is starting to recognize the problems created by protectionism, the US International Trade Commission recently ruled that Canadian hog exports to the United States have not injured the American market. Since American and International trade law requires that the domestic market suffers injury before duties can be imposed, this means that anti-dumping duties amounting to 10.63% will be removed and duties paid to date should be returned. It is a clear victory for Canadian hog farmers and offers a ray of hope to other Canadian industries threatened by American protectionism.

The removal of duties on live swine shipped to the United States offers hope to lumber producers and cattle ranchers

Infoline

May 20, 2005

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BC at a glance . . .

POPULATION (thousands)	Jan 1/05	% change on one year ago
BC	4,220.0	1.1
Canada	32,078.8	0.9
GDP and INCOME		
(BC - at market prices)	2004	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	156,481	7.5
GDP *($ 1997 millions)*	138,783	3.9
GDP *($ 1997 per Capita)*	33,072	2.8
Personal Disposable Income *($ 1997 per Capita)*	20,002	1.2
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Mar	3,581	-0.1
Merchandise Exports - Mar	2,605	-2.5
Retail Sales - Mar	4,134	0.8
CONSUMER PRICE INDEX		12-month avg
(all items - 1992=100)	Apr '05	% change
BC	124.9	2.3
Canada	126.9	2.2
LABOUR FORCE (thousands)		
(seasonally adjusted)	Apr '05	% change on prev. month
Labour Force - BC	2,251	0.1
Employed - BC	2,114	0.6
Unemployed - BC	137	-7.1
		Mar '05
Unemployment Rate - BC *(percent)*	6.1	6.5
Unemployment Rate - Canada *(percent)*	6.8	6.9
INTEREST RATES (percent)	May 18/05	May 19/04
Prime Business Rate	4.25	3.75
Conventional Mortgages - 1 year	4.90	4.55
- 5 year	6.05	6.40
US/CANADA EXCHANGE RATE	May 18/05	May 19/04
(avg. noon spot rate) Cdn $	1.2618	1.3766
US $ *(reciprocal of the closing rate)*	0.7935	0.7264
AVERAGE WEEKLY WAGE RATE		
(industrial aggregate - dollars)	Apr '05	% change on one year ago
BC	700.56	3.6
Canada	699.65	3.0

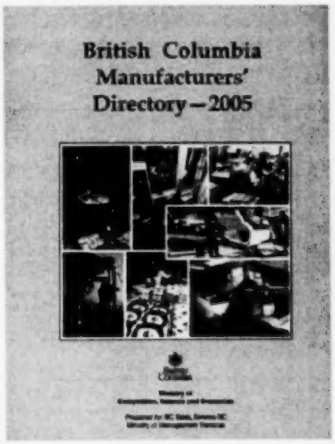
SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

For latest Weekly Financial Statistics see www.bankofcanada.ca

2005 Manufacturers' Directory



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